



Malaysian Airline System Berhad

In Dire Need of a Rescue Plan

TP: RM 0.27 (-8.0%)

Last Traded: RM 0.25

SELL

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Review

- MAS' 1QFY14 net loss came in at RM650mn after adjusting for net exceptional expense of RM100mn. This was within ours and consensus' full-year loss estimates of RM1.2bn.
- For 1H14, adj. loss before tax increased 13.6% YoY to RM641mn, underpinned by: 1) 3.5%pts drop in load factor to 75.1%; and 2) yield compression by 6.9% to 44.2sen/RPK. The weaker load factor can be attributed to lackluster demand for international flights following MH370 tragedy (see Chart 1 to 4).
- The balance sheet and cash flow strength deteriorated further in 2Q14 with:
 - the amount of cash depleted by RM1.3bn in 1H14 to RM2.5bn;
 - the net gearing (including the perpetual sukuk of RM1.5bn) shot up to 3.4x from 2.3x in 4Q13;
 - the deficit in net current asset increased to RM2.8bn from RM1.6bn in 4Q13 (current ratio dropped to 0.62x from 0.79x); and
 - the free cash flow (CFO + CFI) amounted to a deficit of RM1.4bn in 1H14.

Impact

- No change to our FY14-16 earnings projections.

Outlook

- Confidence crisis.** In July-14, the load factor of domestic flight dropped to 68.1% from 76.1% in 2Q14 as demand was weak following the twin-incidents happened to MH370 and MH17. Although the load factor of international flight recovered to 76.1% in July-14 from 73.4% in 2Q14, we believe this was at the expense of passenger yield as the airline has been cutting fares to stimulate demand.
- Crisis management.** As part of restructuring exercise, Khazanah has proposed to privatise MAS by returning 27sen/share to minority shareholders for cancelling their shares. According to management, the selective capital repayment exercise is expected to take between 4-6 months for completion. In the meantime, we believe Khazanah would announce a series of restructuring program soon. In our opinion, we believe the plan would include measures to reduce operating costs and downshift its operations. Having said that, we expect Khazanah to announce 1) voluntary separation schemes for MAS employees, and 2) change in the fleet renewal program to reduce capacity.

Share Information

Bloomberg Code	MAS MK
Stock Code	3786
Listing	Main Board
Share Cap (mn)	16710.8
Market Cap (RMmn)	3509.3
Par Value	0.10
52-wk Hi/Lo (RM)	0.415/0.20
12-mth Avg Daily Vol ('000 shrs)	46410.0
Estimated Free Float (%)	30.6
Beta	0.34

Major Shareholders (%)

Khazanah - 69.4

Forecast Revision

	FY14	FY15
Forecast Revision (%)	-	-
Net profit (RMm)	(1192.0)	(940.3)
Consensus	(907.5)	(563.0)
TA's / Consensus (%)	131.4	167.0
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY14	FY15
Net debt/equity (%)	2.1	2.1
CFPS (sen)	(137.5)	(10.5)
P/CFPS (x)	nm	nm
ROA (%)	(0.3)	0.7
NTA/Share (RM)	0.3	0.3
Price/NTA (x)	0.8	0.8

Scorecard

	% of FY	
vs TA	55	Within
vs Consensus	55	Within

Share Performance (%)

Price Change	MAS	FBM KLCI
1 mth	13.6	(0.1)
3 mth	38.9	(0.1)
6 mth	0.0	2.2
12 mth	(20.6)	10.1

(12-Mth) Share Price relative to the FBM KLCI



Valuation and recommendation

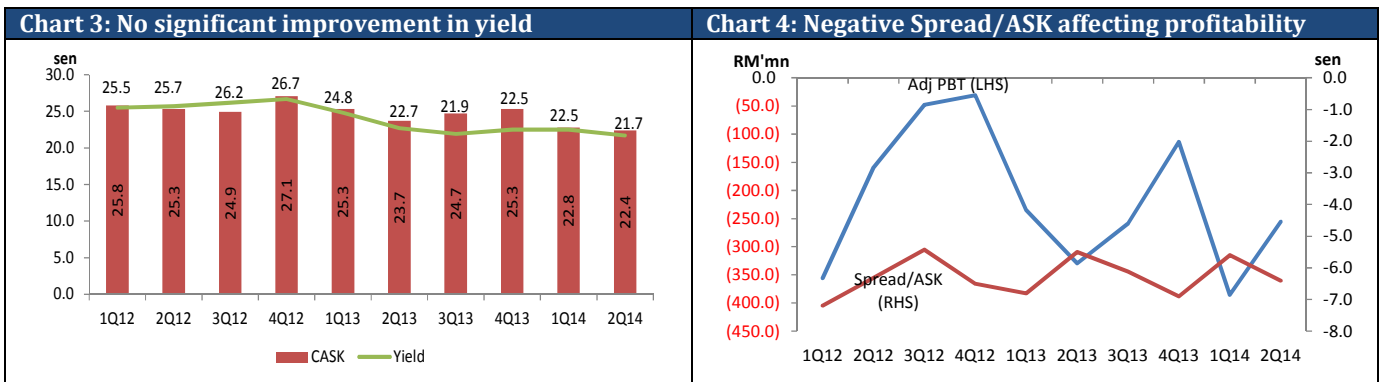
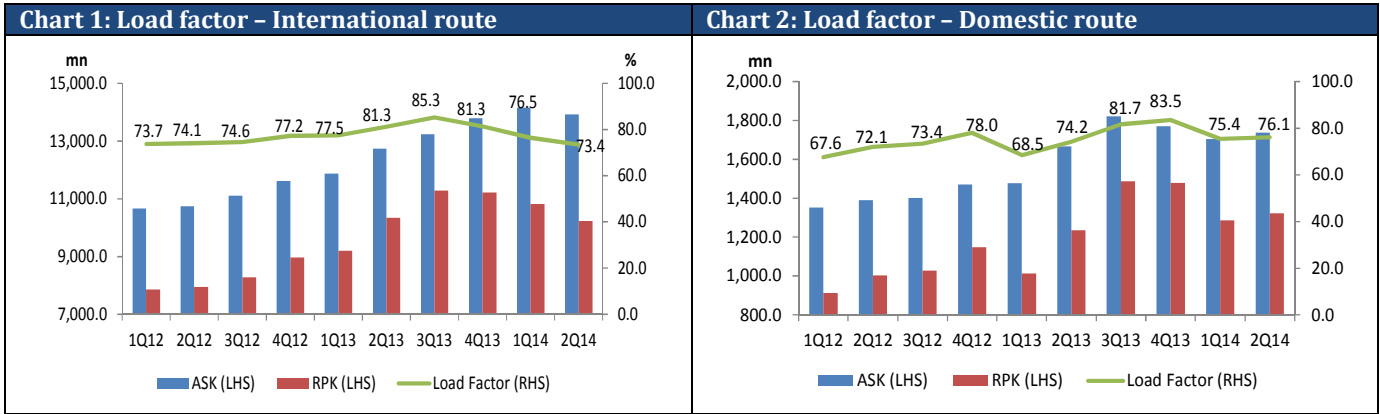
- We maintain our target price at RM0.27/share, at par with the offer price to buyout minority shares. Given the limited upside potential, we downgrade MAS to **Sell** (from Hold) and cease coverage on the stock.

Earnings Summary (RMmn)

FYE Dec 31	FY12	FY13	FY14F	FY15F	FY16F
Revenue	13286.6	14548.2	14437.6	15272.6	17041.4
EBITDA	232.2	254.2	(49.7)	119.1	1072.1
EBITDA margin (%)	1.7	1.7	(0.3)	0.8	6.3
Pretax profit	(584.6)	(1055.8)	(1178.0)	(926.3)	27.6
Net profit	(432.6)	(1173.7)	(1192.0)	(940.3)	13.6
Core net profit	(592.4)	(1076.7)	(1192.0)	(940.3)	13.6
EPS (sen)	(8.4)	(8.0)	(7.1)	(5.6)	0.1
EPS growth (%)	(85.7)	4.6	10.5	21.1	>100
PER (x)	nm	nm	nm	nm	306.6
GDPS (sen)	0.0	0.0	0.0	0.0	0.0
Div yield (%)	0.0	0.0	0.0	0.0	0.0
Core ROE (%)	(37.4)	(35.0)	(34.7)	(39.6)	0.7

2QFY14 Results Analysis (RMmn)

YE 31 Dec	2Q13	1Q14	2Q14	QoQ (%)	YoY (%)	6MFY13	6MFY14	YoY (%)
Revenue	3594.3	3531.2	3337.2	(5.5)	(7.2)	6983.3	6868.4	(1.6)
EBITDA	238.0	(101.2)	(32.9)	(67.5)	(113.8)	268.2	(134.1)	>-100
Depreciation	(230.0)	(234.3)	(219.3)	(6.4)	(4.6)	(425.5)	(453.6)	6.6
EBIT	8.0	(335.5)	(252.2)	(24.8)	(3252.5)	(157.3)	(587.7)	273.6
Net finance cost	(111.0)	(121.9)	(119.0)	(2.4)	7.2	(210.3)	(240.9)	14.5
Associates	(0.0)	7.8	12.6	62.7	(30207.1)	3.1	20.4	555.9
Exceptionals	164.0	(53.9)	(46.7)	(13.3)	(128.5)	120.2	(100.7)	>-100
PBT	(165.8)	(439.1)	(302.6)	(31.1)	82.5	(444.3)	(741.8)	67.0
Adj PBT (LHS)	(329.8)	(385.2)	(255.9)	(33.6)	(22.4)	(564.5)	(641.1)	13.6
Tax	(9.3)	(3.3)	(3.1)	(6.8)	(67.1)	(9.4)	(6.3)	(32.8)
MI	(0.8)	(1.0)	(1.4)	41.6	69.2	(0.6)	(2.3)	300.5
Reported PAT	(176.0)	(443.4)	(307.0)	(30.8)	74.5	(454.8)	(750.4)	65.0
Core net profit	(339.9)	(389.5)	(260.3)	(33.2)	(23.4)	(574.5)	(649.8)	13.1
EPS (sen)	(1.3)	(2.7)	(1.8)	(30.6)	41.5	(5.2)	(4.5)	(14.1)
Adj EPS (sen)	(2.5)	(2.3)	(1.6)	(33.0)	(37.9)	(5.8)	(3.9)	(33.2)
Dividend (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				%-pts	%-pts			%-pts
EBITDA margin	6.6	(2.9)	(1.0)	1.9	(7.6)	3.8	(2.0)	(5.8)
EBIT margin	0.2	(9.5)	(7.6)	1.9	(7.8)	(2.3)	(8.6)	(6.3)
Adj PBT margin	(9.2)	(10.9)	(7.7)	3.2	1.5	(8.1)	(9.3)	(1.3)
Core net margin	(9.5)	(11.0)	(7.8)	3.2	1.7	(8.2)	(9.5)	(1.2)



Source: MAS & TA Research

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